



REPUBLIC OF PANAMA
— NATIONAL GOVERNMENT —

MINISTRY OF TRADE AND INDUSTRY

A WORLD TRADE CENTER AT THE CENTER OF THE WORLD

HOW COMPANIES CAN IMPROVE SUPPLY CHAINS BY USING PANAMA AS A MANUFACTURING
AND LOGISTICS PLATFORM FOR THE REGION AND THE WORLD



INTRODUCTION:

In a recently posted article by **Willy C. Shih**, Professor of Management Practice in Business Administration at Harvard Business School he explains that the U.S.-China trade war and the supply and demand shocks brought on by the Covid-19 crisis are forcing manufacturers everywhere to reassess their supply chains. Shih states that “as a consequence of all this, manufacturers worldwide are going to be under greater political and competitive pressures to increase their domestic production, grow employment in their home countries, reduce or even eliminate their dependence on sources that are perceived as risky, and rethink their use of lean manufacturing strategies that involve minimizing the amount of inventory held in their global supply chains”.

Today more than ever, supply chains are being put to the test because consumers demand products faster and cheaper. That is why, it is essential to provide your supply chains with safe, efficient and central locations to conduct manufacturing and logistics activities. Decision makers should consider regionalizing supply chains by adopting a strategy of producing a substantial proportion of products within the region where they are consumed. Shih adds that:

“

Managers should consider a regional strategy of producing a substantial proportion of key goods within the region where they are consumed. North America might be served by shifting labor-intensive work from China to Mexico and Central America.”



Now is the time to act; leaders need to find ways to make their businesses work better and give themselves an advantage. Regionalizing manufacturing and logistics in countries that provide a safe, efficient, and central location is the way to proceed to have resilient supply chains, reduce time of products reaching their markets and at the same time reducing costs of transport. Companies that adopt this strategy, will be better positioned to grow, and reduce the risks from future disruptions.

Source: Shih, Willy C. “Global Supply Chains in a Post-Pandemic World”

<https://hbr.org/2020/09/global-supply-chains-in-a-post-pandemic-world> (September - October 2020) Harvard Business Review.

BACKGROUND

A history of connecting the world:

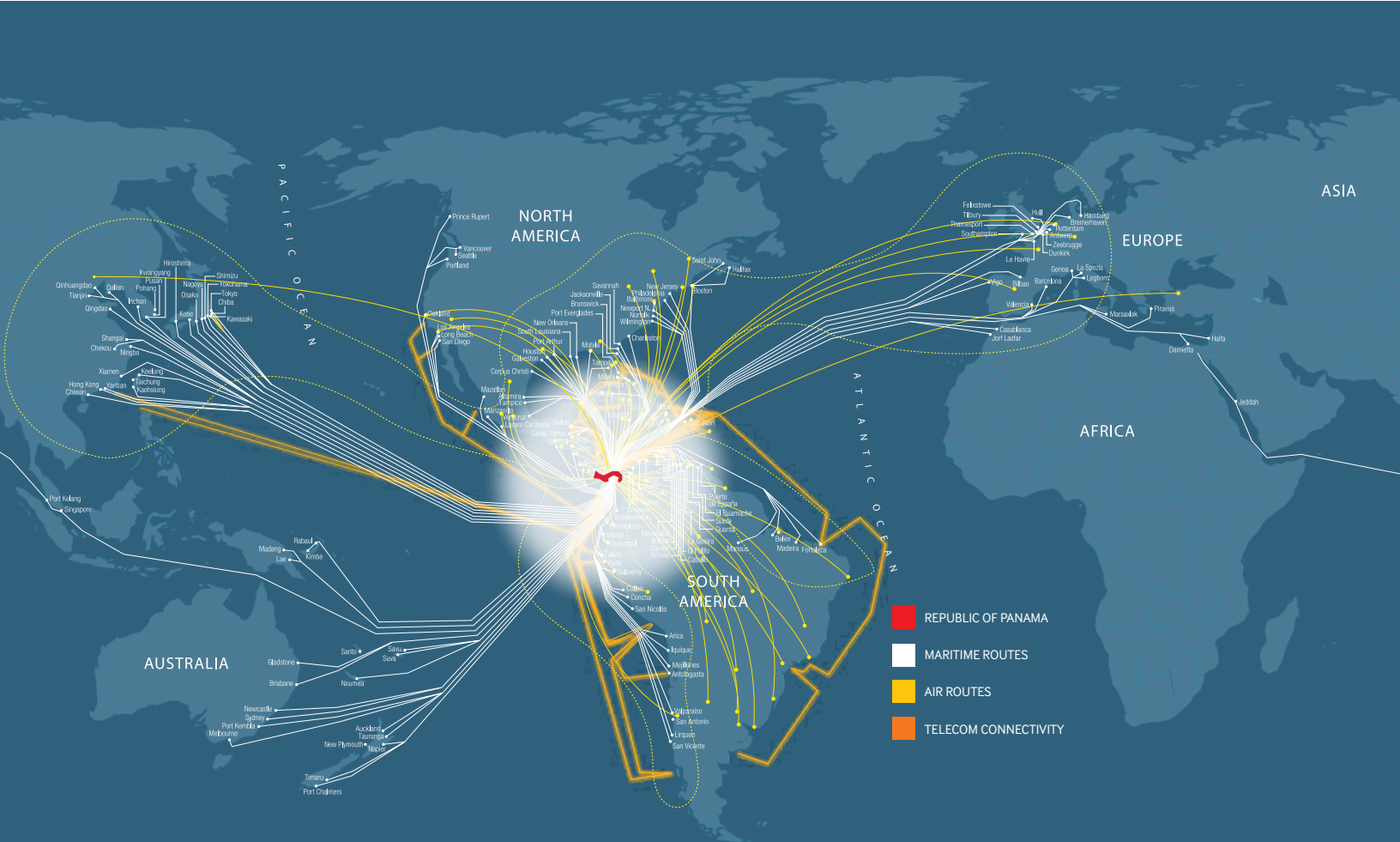
Panama's key geographic position has historically been of great strategic importance. The isthmus of Panama was formed around 2.8 million years ago. It separated the Atlantic & Pacific oceans, as well as linked North & South America. This landmass, small as it may be,

changed the biodiversity of the modern world as we know it.

During colonial times, the Spanish Crown was focused on Panama because of its strategic location. In the New World, most of the gold, silver, and other riches that were obtained from their conquests in the Americas, were all consolidated in Panama City (the first major

colonial settlement on the Pacific coast). Then via the Camino Real & the Camino de Cruces, they were transported by land to the Atlantic, where the Spanish had built the forts of Portobelo and San Lorenzo to safeguard their riches before being shipped to Spain.

During the mid to late 19th Century, the town of Colon blossomed alongside



Panama City. With the construction of the 1st inter-oceanic railway, Panama's strategic location once again played a major role moving people from east to west during the California gold rush of the late 1840's and early 1850's. The French started construction of the Panama Canal alongside the Inter Oceanic Railway during the later part of the 1800's. This engineering marvel was later completed by the American's in 1914, further cementing the status of Panama as a key hub for logistics, travel, & exchange throughout the entire western hemisphere. In June 1948, the Colon Free Zone was established. Several multinational companies such as Gillette Export, Coca Cola export Corp., Pfizer Int., & Parke-Davis opened for busi-

ness here. Since then, the CFZ (ZLC) has grown into the 2nd largest duty-free zone in the world.

Modern day Panama: A model for stability in the region.

With modern skyscrapers, luxury hotels and even artificial islands, Panama City has been labeled Latin America's Dubai. With its laser focus on trade, it's also been compared to Singapore. With the region's fastest - growing economy and second highest GDP per Capita in the region, Panama's thriving domestic market also helps attract multinational firms.

The underlying political and economic infrastructure that keeps commerce flowing

smoothly is just as essential as all the logistic infrastructure in Panama. The country has enjoyed free and fair elections for more than 30 years making it one of the most stable countries in the region, both politically and economically.

Having a dollarized economy with almost no inflation since 1904 has helped Panama achieve a solid financial stability, backed by a well-developed and long-established international banking center with over 60+ licensed International banks. Panama's continued focus on major infrastructure projects as well as public policies aimed at facilitating international trade & investments, has led modern day Panama to a sustained economic growth





above 7% on average for the last fifteen years (leading the Latin American Region Pre-Pandemic).

Security is another important competitive advantage that Panama offers over most of the other countries in the region. According to the Global Peace Index of 2020, Panama is the fourth safest country in Latin America. This is one of the reasons Panama is continuously ranked amongst the best places in the world to retire according to prestigious publications such as Forbes. In their 2021 Global Retirement Index it states that “Panama has ranked at the top of IL’s retirement index many times for many reasons. Even after all these years, the country consistently delivers when it

comes to overall value,” says International Living correspondent Jessica Ramesch.

With a mix of ocean views, warm weather, and big-city amenities in a hurricane-free environment, Panama provides something different for everyone.

World Class Logistics Center:

Panama is best known for its eponymous canal, a majestic symbol of global trade, through which flows 5% of all the world’s goods. But Panama is much more than just a place to pass through, as its central location, modern trade infrastructure and economic and political stability have combined to create a strong draw for

foreign businesses seeking to build regional trade operations or manufacturing hubs.

The story naturally begins with the Panama Canal, which handled a record 13,785 ships from 160 countries in 2019, before the pandemic struck. Since control of this century-old engineering marvel was assumed by the Panamanian government in 1999, the focus has shifted to making the country not just a place where business simply passes through, but also a place where business gets done. Panama has become the maritime hub of the region, with its thriving inter-oceanic canal and world class seaport infrastructure both on the Pacific and Atlantic side. In 2019, the port of Colon on the Atlantic coast of



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making the isthmus a hub for digital connectivity.

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Panama handled the largest volume of cargo containers in Latin America and the Caribbean, and the whole port system handled a volume of 7.3M TEUs in 2019.

Complementing all this maritime infrastructure, is a railway that functions as a dry canal, connecting the Atlantic to the Pacific.

Due to its privileged geographic position, Panama has also become an air hub with Panama City's Tocumen International Airport which is considered the hub of the Americas, with 90 connections to 34 countries. Any location in Central America, Colombia and Venezuela is one to two hours away; Miami is three hours away; and many U.S. and South American locations can be reached in under six hours.

This presents a great advantage for companies that have offices in different parts of the continent, that use Panama as a regional headquarters. Multinational executives can be in different markets, in a matter of hours flying directly from Panama.

Through Panama, converge seven submarine fiber optic cables, the latest one the Curie cable from Google, making the isthmus a hub for digital connectivity. This digital highway manages 100% of the regional traffic, 97% of international voice traffic, 90% of electronic data transmission with a virtual unlimited bandwidth, thus guaranteeing a robust digital infrastructure for Panama.

Rule of Law:

Panama offers legal stability to all foreign investments under Law 54 of 1998, guaranteeing that the same legal, taxation, labor, customs, and municipal rules under which the company invested and started to develop its activities in Panama don't change for at least ten years, even if the local Panamanian laws change.

This provides for a great incentive of long term assurance that the rules of the game will stay constant for foreign investment, and is a reflection on why Panama has attracted over 51% of Central America's foreign direct investment since the turn of the millennium.

In terms of labor laws, and specifically child labor, Panama is currently compliant with the main international legal instruments addressing child labor, when it ratified the International Convention on Children's Rights by the enforcement of Law 15 of November 1st, 1990, which includes specific provision addressing and banning child labor. In the year 2000, Panama also ratified the International Labour Organization (ILO) International Convention 138 on "Minimum Age for Admission to Employment" and 182 on "Worst Forms of Child Labor". As a result, Panama's legal framework aims towards banning child labor and punishing its infringement with provisions in the Constitution of Panama, the criminal code, family code, and labor code. Additionally, The Ministry of Labor of Panama is currently coordinating with the ILO, a strategy in order to develop a network of companies against child labor and promote a responsible business culture on this matter by a good business practice certification issued by the Ministry of Labor and aimed at complying with international standards in business certifications for exports of goods and services.



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Environmentally proactive:

The Republic of Panama has adopted and complies with the main international treaties and conventions including the UN Convention on Climate Change, the Kyoto Protocol, the UN Sustainable Development Goals, and the Paris Climate Accord. Also within its environmental law, climate change is recognized as a great danger and risk; there's a special chapter on it and the national government

has implemented many actions and plans aimed at reducing the carbon footprint, including the creation of an emissions registry and mitigation actions and monitor the compliance with the Paris Climate Accord.

The creation of the Ministry of The Environment in 2015 further underlines Panama's commitment with the environment, promoting programs to reduce carbon footprint, monitor emissions, promote reforestation, carbon neutral organizations registry and

has identified ten main strategic sectors to be integrated in order to mitigate the environmental impact of economic activities which include clean energy, forestry, agriculture, cattle ranching, aquaculture, management of hydrographic basins, biodiversity, marine - coastal systems, resilient human settlements, circular economy and public health.

Network of Free Trade & Commercial Agreements:

With twenty - three free trade commercial agreements, spanning more than sixty plus countries worldwide, Panama offers a great export platform to access markets in America, Europe and Asia. This provides companies operating from

Panama direct access to over 1.3 billion consumers with a purchasing power per capita of over +\$29,000.00. Multi-national companies can take advantage of this network of treaties to augment exports and acquire a real competitive advantage in terms of pricing of their products.

Some of the most relevant

treaties that Panama has are the Free Trade Agreement with the United States of America, the Association Agreement with the EU, the Association Agreement with the United Kingdom, Free Trade Agreement with Central America and the recently signed Free Trade Agreements with Israel and South Korea.

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free trade
commercial
agreements

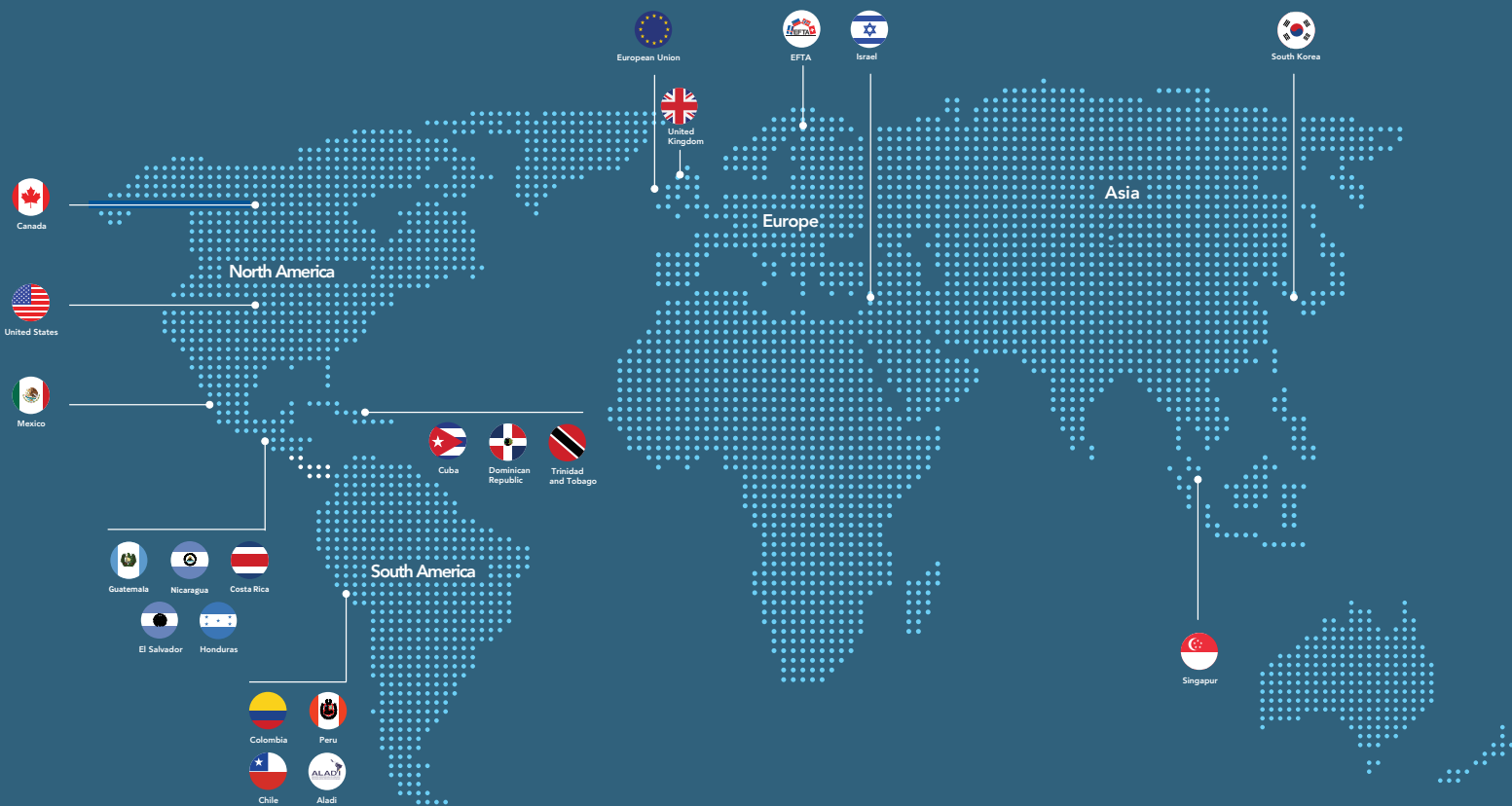
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SPECIAL ECONOMIC ZONES & REGIMES GEARED TOWARDS ATTRACTING FOREIGN DIRECT INVESTMENT

SPECIAL ECONOMIC ZONES:

On December 31, 1999 the Panama Canal and all its surrounding areas reverted to Panama, including lands that were occupied by US military bases. Taking advantage of major infrastructure left behind by the United States of America, Panama has been able to capture over 51% of all Foreign Direct Investment in Central America by creating special economic zones and laws that have established a favorable environment for companies. Following are the main economic zones that are currently established in Panama:

Colon Free Zone:

Established in 1948, the Colon Free Zone is the second largest free zone in the world and one of the

leading logistic centers for multimodal redistribution in the world. Located adjacent to three major shipping ports on the Atlantic side, it is an ideal hub to access markets of Central America, The Caribbean and Andean Community. It is home to many multinational companies that have headquarters in Panama and utilize the free zone to redistribute their products to the rest of the region. It currently harbors over 2,700 companies, employing over 18,000 people.

Panamá Pacifico:

Taking advantage of an old US Air Force base, the Republic of Panama in conjunction with master private developer London Regional, created one of the largest, most ambitious

mixed - use developments in the world, located right next to the Pacific entrance to the Panama Canal. With a total area of 1400 hectares, Panama Pacifico offers an integrated solution for companies that want to establish in Panama, but at the same time provide their executives with an integral solution of housing and commercial amenities. Panama Pacifico is the ideal location for activities such as high-tech manufacturing, logistics and distribution, maritime & aviation services, regional headquarters, and movie industry amongst others. Over 300 companies are located here, including Fortune 500's & Forbes Global 2000 Firms such as Dell, Fedex and 3M.

Free Trade Zones:

Panamanian law allows for an individual or company to establish a Free Zone anywhere in the country as long as it meets certain criteria such as a minimum area of two hectares.



Some of the permitted activities are as follows: manufacturing, agroindustry, assembly, processing, logistics, high-tech research, environmental services, and health services.

SPECIAL REGIMES:

The special regimes are laws that are structured to provide multinational companies with attractive tax, migration, and labor incentives that in conjunction with Panama's natural competitive advantages, provide a business environment bred for success. The MHQ (Multinational Headquarters) regime or as it is known in Spanish as SEM (Sede de Empresas Multinacionales) was created in 2007 and has attracted over 170 multinational companies with an estimated investment of \$1.2B. To be eligible to apply for this regime, the company needs to have a value of \$200M or more in total group assets or have at least seven subsidiaries. From this regime, companies can provide services to its parent company or subsidiaries such as management operations, logistics/warehousing, design/construction plans, electronic processing, research and development, marketing, and sales. Through the years, companies such as Procter & Gamble, Nestlé, Samsung, Dell, Estée Lauder and many more have thrived under the MHQ regime, establishing regional and global headquarters in Panama.

With the success of the MHQ regime, the current geopolitical trade situation and the supply and demand shocks brought on by the Covid-19, last year the Republic of Panama saw the opportunity to establish its newest regime called Manufacturing Services for Multinational Companies (MSM) or EMMA (Empresas Multinacionales para la Prestación de Servicios de Manufactura) in Spanish, to promote all the competitive advantages that Panama offers to companies looking to



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Within this regime, there are many activities that a company can perform such as manufacturing, remanufacturing, assembly, conditioning, refurbishing, labeling, packaging, processing, maintenance & product repair, warehousing,

distribution center for parts, components and products, product development, and research and innovation.

A well trained labor force is essential for the success of the MSM regime, and as such the law contemplates a component in which companies can have their own in-house training centers or develop local training programs with local universities and training institutions such as the

INADEH (National Institute for Professional Formation and Human Resources Development). Companies such as Korean electronics giant LG, have established successful training programs in Panama with positive results. Also, the presence of American universities such as Florida State and Louisville provide for additional training support in careers that manufacturing companies demand.

BENEFITS OF THE MHQ AND MSM REGIME

Description	MHQ regime (Law 41 of 2007 and its amendments)	MSM regime (Law 159 of 2020)
 1. Tax Regime		
a. Subject to a maximum of 5% and no less than 2% of income tax on services rendered in the Republic of Panama.	✓	✓
b. Dividend, complementary and branch taxes exemption.	✓	✓
c. They are not subject to the use of fiscal equipment.	✓	✓
d. ITBMS (Panama sales tax) exemption, for services provided to companies abroad.	✓	✓
e. Subject to capital gain regime at fixed rate of 2%.	✓	✓
f. Notice of Operation (local document required to execute business in Panama) and its fees exemption.	✓	✓
g. Subject to transfer price.	✓	✓
h. ITBMS exemption, for the purchase and import of goods and provision or services in the Republic of Panama.	✗	✓

BENEFITS OF THE MHQ AND MSM REGIMES







2. Immigration Regime

	MHQ regime (Law 41 of 2007 and its amendments)	MSM regime (Law 159 of 2020)
1) Immigration flexibility.	✓	✓
Types of Visas:		
a) Permanent Personnel.	✓	✓
b) Permanent Personnel Dependent.	✓	✓
c) Permanent Residence.	✓	✓
d) Temporary Personnel.	✓	✓
e) Temporary Personnel Dependent.	✗	✓
2) Foreign personnel with MHQ/MSM visas are exempt from wage deductions on local income, social security and educational taxes.	✓	✓



BENEFITS OF THE MHQ AND MSM REGIMES

Description	MHQ regime (Law 41 of 2007 and its amendments)	MSM regime (Law 159 of 2020)
 3. Labor regime		
<p>a. Subject to the Labor Code, with exceptions laid down by the Law.</p>	✓	✓
<p>b. Work agreements that contemplate alternate rest day other than sundays are admissible. If sunday is a regular work day, there will be no additional wage surcharge. Nonetheless, work performed during a weekly rest day will be remunerated with a 50% surcharge.</p>	✗	✓
<p>c. Overtime will be paid at a surcharge of 25%.</p>	✗	✓
<p>d. Technical Teaching Centers.</p>	✗	✓
 4. Customs regime		
<p>a. Exonerated from all taxes, fees, encumbrances or import duties on all types or classes of merchandise, products and equipment that are required for the execution of MSM services.</p>	✗	✓
<p>b. Import tax exemption for household items.</p>	✓	✓
<p>c. Import tax exemption of a motor vehicle.</p>	✓	✓
<p>d. A company of the Business Group acting as an importer will pay the respective customs duties or taxes, only on the value of raw materials and foreign components incorporated in the final product, by virtue of International Trade Treaties or Agreements.</p>	✗	✓
 5. Other benefits		
<p>Legal Stability Law N° 54 which protects foreign investment.</p>	✓	✓
 6. Environment and other requirements		
<p>a. Requires environmental impact study.</p>	✗	✓
<p>b. Recyclable waste can be sold to third parties, exempt from income tax.</p>	✗	✓

A TRACK RECORD OF SUCCESS FOR MULTINATIONAL COMPANIES

Multinational companies have thrived under the special regimes in Panama, with a history of achievement and prosperity. Companies such as Procter and Gamble, which have their Latin American Headquarters in Panama share their experience: "There are definitely very clear factors that made Panama a good decision to strategically locate our Latin America HQ," says Juan Fernando Posada, P&G's president for Latin America. "the economic and political stability that the country enjoys, security, its financial services and definitely the easy air interconnection with the rest of the region. In Panama we have found a business-friendly environment with an open-door policy.

Other companies such as world, science-based technology company 3M have established manufacturing and logistics operations in Panama. "Our access to raw materials is

much faster than in other places in Latin America, and it's an ideal place to consolidate and export merchandise to our distribution centers in the region," says Enrique Aguirre, General Director of 3M for Central America and the Caribbean. It's also easy to distribute to Central American countries by land. Legal stability is also very important-you have to compare that to the rest of the countries in Central and Latin America. The rule of law is clear, and U.S. companies feel very comfortable here, perhaps because of the history the two countries share."

Nestlé, the largest food & beverage company in the world has been doing business in Panama since 1938, with

manufacturing, logistics and procurement operations for the region and the world. "The country offers us so many benefits in terms of logistics, geographical location, legal security, quality of life, access to services, quality health and housing and trained professionals," adds Juan Gabriel Reyes, President and CEO of Nestlé Central America, which has two factories and its Central American regional offices in Panama. "In turn, we provide the country with high-quality job opportunities, transfer of knowledge, tax payments and consumption of its products and services, among other benefits. We believe in Panama."



CONCLUSION

As history has shown us, for a long time Panama has been a global player in world commerce. Its privileged geographical position and connectivity to the rest of the world has enabled the isthmus to facilitate trade routes to the region and to the world. Today, Panama offers social and political stability, with a modern environment and world class logistics infrastructure that provides key advantages for any company that

wants to conduct nearshoring operations. The rule of law is clear, and companies conduct their business under environmental and labor regulations that care for the environment and care for the people employed in these companies.

Besides having a historically great geographical position and some of the best social and political stability in the region, the fact that Panama has twenty-three free trade / commercial

agreements marks an opportunity to reach a potential market of more than 1.3B consumers. With special economic zones and regimes that possess modern infrastructure plus tax, migration, and labor benefits created to provide companies in Panama with the ideal business environment to be successful, Panama has become one of the best destinations in the Americas to do business.



Source: Ministry of Trade and Industry.

"A WORLD TRADE CENTER AT THE CENTER OF THE WORLD" HOW COMPANIES CAN IMPROVE SUPPLY CHAINS BY USING PANAMA AS A MANUFACTURING AND LOGISTICS PLATFORM FOR THE REGION AND THE WORLD, (2021).

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